

EXHIBIT B

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MASSACHUSETTS**

United States of America, et al,
Plaintiffs,

v.

JetBlue Airways Corporation,

and

Spirit Airlines, Inc.,
Defendants.

Case No. 1:23-cv-10511

**HIGHLY CONFIDENTIAL –
SUBJECT TO PROTECTIVE
ORDER**

AMENDED EXPERT REPORT OF GAUTAM GOWRISANKARAN, PH.D.

July 7, 2023

Table of contents

1. Qualifications and assignment	5
1.1. Qualifications	5
1.2. Assignment	6
2. Summary of opinions	6
3. Background	9
3.1. Competition in the US airline industry	9
3.1.1. How airlines set routes, schedules, product attributes, and prices	9
3.1.2. Business models in the US airline industry	14
3.1.3. Foreign carriers on international routes relevant for the proposed merger	21
3.2. The Defendants and their operations	22
3.2.1. JetBlue	22
3.2.2. Spirit	24
4. Market definition	28
4.1. Economic principles of market definition	28
4.2. Product market	30
4.3. Geographic market	33
4.4. The proposed markets pass the hypothetical monopolist test	37
5. High market shares and concentrations	42
5.1. Overview of market share and HHI measures	43
5.2. Shares and HHIs in overlap markets	46
5.3. Large changes in concentrations in overlap markets reflect large incentives to raise prices post-merger, and thus are a strong indication of likely harm to competition	50
5.3.1. UPP and GUPPI statistics can quantify this incentive in overlap markets	52

6. Analytical framework and types of evidence to evaluate the likely competitive effects of the Spirit JetBlue merger	58
6.1. Analytical framework.....	59
6.2. Empirical evidence that can be applied in this framework to evaluate the likely competitive effects of the proposed merger	63
6.3. Other types of evidence that can be applied in this framework to evaluate the likely competitive effects of the proposed merger	72
7. Competitive effects	74
7.1. Evidence of head-to-head competition between JetBlue and Spirit.....	77
7.1.1. Ordinary course materials demonstrate substantial head-to-head competition between JetBlue and Spirit.....	78
7.1.2. Empirical evidence demonstrates substantial competition between JetBlue and Spirit.....	87
7.2. Spirit affects competitive outcomes in ways that benefit consumers and that would be lost after the merger	95
7.2.1. Spirit offers low prices	100
7.2.2. Spirit's competitors lower prices in response to competition from Spirit.....	104
7.2.3. Spirit expands the number of travelers in the market	109
7.3. Evidence of Spirit's importance to mitigating risks of coordination or accommodating conduct	111
7.3.1. Features of the airline industry make it susceptible to coordination or parallel accommodating conduct... ..	113
7.3.2. Spirit has an incentive to disrupt coordinated conduct, and by eliminating the incentives that derive from Spirit's business model, the proposed merger would increase the likelihood and effectiveness of coordination in many relevant markets	119
7.3.3. The proposed merger may also make JetBlue more likely to engage in coordination with other airlines ..	129
7.4. Evidence refutes Defendants' claim that JetBlue is more effective than Spirit at turning planes or other scarce resources into competitive effects	131
7.5. If the merger were approved, consumers—especially cost-conscious ones—would suffer harm—approximately \$1 billion in total on an annual basis—even if taking at face value Defendants' core rationale for the deal.....	137
7.5.1. Quantifying total consumer harm and average harm per passenger.....	138
7.5.2. The harm from the lost competition from Spirit will likely fall disproportionately on the most cost-conscious consumers.....	155
7.6. Additional effects where standalone Spirit had planned growth	163
7.7. Additional effects that will arise from JetBlue's alliance with American, if that alliance were to continue during or after an appeal.....	166
8. I have not seen evidence that entry or efficiencies will mitigate the competitive effects of the proposed merger	168
9. Appendix.....	170
9.1. Data on prices and quantities	170
9.1.1. Overview	170
9.1.2. DB1B processing	173
9.1.3. DB1B and OAG combined processing, for shares and HHIs.....	174

9.1.4. Ticket data processing.....	175
9.1.5. T-100 processing.....	179
9.2. JetBlue and Spirit prices over time, additional sensitivities	180
9.3. Price changes on short routes, using all-inclusive price	182
9.4. Shares and HHIs in all nonstop overlap markets	183
9.5. Comparison of Spirit to competitor fares in the Hartford, CT – Miami, FL, using ticket data and all-inclusive price	184
9.6. Comparisons of carriers’ prices that adjust for stage length	185
9.7. Competitor response to Spirit entry, using all-inclusive price.....	189
9.8. Entry study robustness checks related to the availability of competitor basic economy products	193
9.9. Effect of Spirit entry per “plane,” using the all-inclusive price	193
9.10. Quantification of total consumer harm, using unweighted regression results.....	194
9.11. Quantification of total consumer harm, using the all-inclusive price	203
9.12. Distribution of fares, before and after Spirit entry, Hartford, CT – Miami, FL, using all-inclusive price	205
9.13. Competition from Spirit reduces prices paid by consumers and the effect is particularly pronounced for the least expensive tickets, unweighted	206
9.14. Comparability of JetBlue and Spirit entry markets to markets in which harm will likely arise as a result of the proposed merger	206

customers. Specifically, I identify a significant portion of customers—including particularly cost-conscious customers—who would likely be harmed even if, again taking Defendants’ plans for Spirit’s assets at face value, other consumers might benefit to an equal or greater extent in certain markets, thus suggesting aggregate benefits in those markets. (§ 7.5.2)

7.5.1. Quantifying total consumer harm and average harm per passenger

289. In this section, I focus on total consumer harm and average harm per passenger in each market currently served nonstop by Spirit. I highlight evidence that the merger likely creates significant harm in nonstop overlaps, mixed overlaps, and non-overlaps. My approach takes many of Defendants’ assertions and assumptions at face value, even though I do not agree with these assertions or assumptions. For example, I consider both the harm that arises from the loss of competition when Spirit’s product and business model are removed from markets, as well as the potential offsetting benefits that may arise under the assumption that Defendants redeploy Spirit’s aircraft under the JetBlue business model on the same routes. However, because the merged firm has an incentive to reduce capacity in overlap markets, as I discussed in Section 5.3.1, this assumption makes my analysis conservative. My approach also allows me to take seriously, and in the process directly refute, one of Defendants’ core rationales for the deal—that reallocating Spirit planes to JetBlue would result in a procompetitive efficiency.

290. As above, I use an entry study framework that addresses the effect of competition from Spirit and JetBlue on market prices. Spirit’s entries are informative about the extent to which prices decrease as a result of competition from Spirit, and conversely, provide an indication of the extent to which prices would increase and consumers would be harmed following the elimination of Spirit as an independent competitor through the proposed merger. Similarly, JetBlue entries are informative about the extent to which there could be offsetting efficiencies that arise from a larger post-merger JetBlue.

291. My entry analysis here is designed to implement the comparison of effects that Defendants have suggested justifies the proposed merger but it corrects their analysis by including controls for the resources involved in generating those effects, namely the number of “planes” that the entrant deploys (as in Section 7.4, I will use “planes” as shorthand for Spirit’s planes, pilots, and any